

**WEST DES MOINES WATER WORKS**

**INDEPENDENT AUDITOR'S REPORT**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**AUDITOR'S REPORT ON COMPLIANCE**  
**SCHEDULE OF FINDINGS**

**DECEMBER 31, 2006 and 2005**

# WEST DES MOINES WATER WORKS

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## WEST DES MOINES WATER WORKS

### OFFICIALS

December 31, 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James E. Wallace . . . . .	Trustee . . . . .	Dec 31, 2006
Ronald H. Degen . . . . .	Trustee . . . . .	Dec 31, 2008
William B. Spencer . . . . .	Trustee . . . . .	Dec 31, 2009
Philip J. Dorweiler . . . . .	Trustee . . . . .	Dec 31, 2010
Karen S. Novak . . . . .	Trustee . . . . .	Dec 31, 2011
Jerald W. Stevens . . . . .	General Manager/Secretary . . . . .	Indefinite
William H. Garrett . . . . .	Assistant General Manager . . . . .	Indefinite
John R. Luther . . . . .	Superintendent . . . . .	Indefinite
Paula R. Meyer . . . . .	Accountant/Treasurer . . . . .	Indefinite



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CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
West Des Moines Water Works

We have audited the accompanying financial statements, as listed in the table of contents of this report, of the West Des Moines Water Works, West Des Moines, Iowa, as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of West Des Moines Water Works' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the West Des Moines Water Works, West Des Moines, Iowa, as of December 31, 2006 and 2005, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2007 on our consideration of the West Des Moines Water Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and page 31 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the aforementioned financial statements that collectively comprise West Des Moines Water Works' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended December 31, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included on pages 33 through 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the aforementioned financial statements taken as a whole.

The accompanying statistical section on page 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Martens & Company, CPA, LLP*

West Des Moines, Iowa  
April 25, 2007

## **WEST DES MOINES WATER WORKS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

December 31, 2006

West Des Moines Water Works (Water Works) provides this management's discussion and analysis (MD&A) of its financial statements. This narrative overview and analysis of the financial activities is for the years ended December 31, 2006 and 2005. Please consider this information in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

#### **OVERVIEW OF BUSINESS**

The service area of the Water Works has expanded significantly since its governing Board of Trustees was established by election in 1950. The service area is the corporate limits of West Des Moines. The Water Works also provides billing and collection services on a contractual basis to the City of West Des Moines for sanitary sewer usage, storm water management, and solid waste collection, and meter reading service to the City of Clive and the City of Waukee.

As the Water Works' service area has expanded, so too has the need for water storage facilities, booster stations and additional treatment capacity to meet peak demand requirements. The most economical approach for the Water Works has involved requiring the land developers to install the water mains according to Water Works Specifications after which the Water Works accepts ownership of the water facilities.

The water sources for the Water Works are three wells drilled into the Jordan Aquifer and nineteen wells that draw water from the Raccoon River Alluvial Aquifer. In addition, some West Des Moines water is purchased from the Des Moines Water Works.

Governance of the Water Works is vested in a five-member Board appointed by the Mayor of West Des Moines with approval of the City Council. Trustees serve for six-year staggered terms. The Board has complete control of the Water Works' management, and employs 37 full-time and three part-time seasonal employees.

#### **FINANCIAL HIGHLIGHTS**

West Des Moines Water Works' net assets increased as a result of operations. At December 31, 2006, total assets were \$73,050,137 and total liabilities were \$28,855,897 resulting in net assets of \$44,194,240.

Operating revenues increased 13.3% to \$9,634,702 while operating expenses increased 13.1% to \$7,568,401.

During the year, the Water Works had an operating income of \$2,066,301 and an increase in net assets of \$3,057,011.

## USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

MD&A serves as an introduction to the financial statements, and the MD&A represents management's examination and analysis of West Des Moines Water Works' financial condition and performance. The financial statements report information about the utility using full accrual accounting methods as utilized by similar entities in the private sector.

The statement of net assets provides information about the Water Works' assets, liabilities, and net assets, thereby measuring the utility's liquidity and solvency. Liquidity is a measure of the Water Works' ability to meet current obligations (those due within one year). Solvency is a similar concept, but measures the ongoing ability to meet obligations over a longer term.

The statement of revenues, expenses, and changes in net assets presents the results of the Water Works' revenues and expenses over the course of the year and provides information about the Water Works' recovery of costs. Water rates and other charges are established by the Board of Trustees and are based on Water Works' cost analysis.

The statement of cash flows presents cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities, and investing activities. This statement details where cash resources come from and how they are used.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of data provided in the statements. The notes supplement the basic financial statements by presenting information about the Water Works' accounting policies, significant account balances and activities, material risks, obligations, and commitments.

## FINANCIAL INFORMATION OF THE WEST DES MOINES WATER WORKS

The following financial information serves as the key financial data and indicators for management, monitoring, and planning.

### Summary of Net Assets at Year End

	<b>2006</b>	<b>2005</b>
Current assets	\$ 5,615,573	\$ 5,687,715
Restricted assets	8,677,126	7,430,733
Capital assets, net	58,533,568	52,844,587
Other assets	<u>223,870</u>	<u>205,745</u>
Total assets	<u>73,050,137</u>	<u>66,168,780</u>
Current liabilities	4,629,453	3,568,473
Long term liabilities	22,188,056	19,379,399
Other liabilities	<u>2,038,388</u>	<u>2,083,679</u>
Total liabilities	<u>28,855,897</u>	<u>25,031,551</u>
Invested in capital assets, net of related debt	32,691,702	30,267,056
Restricted	6,453,542	5,554,103
Unrestricted	<u>5,048,996</u>	<u>5,316,070</u>
Total net assets	<u>\$ 44,194,240</u>	<u>\$ 41,137,229</u>

### Summary of Changes in Net Assets for the Years Ended December 31,

	<b>2006</b>	<b>2005</b>
Water sales	\$ 7,267,402	\$ 6,766,835
Connection fees	997,723	721,199
Other sales and services	<u>1,369,577</u>	<u>1,016,768</u>
Total operating revenue	<u>9,634,702</u>	<u>8,504,802</u>
Salaries and benefits	2,621,201	2,342,704
Chemicals and power	666,631	662,775
Purchased water	732,068	553,622
Insurance	113,688	109,869
Maintenance and supplies	669,719	730,621
Depreciation	2,089,846	1,917,342
Other	<u>675,248</u>	<u>374,477</u>
Total operating expenses	<u>7,568,401</u>	<u>6,691,410</u>
Operating income	<u>2,066,301</u>	<u>1,813,392</u>
Interest income	563,750	343,289
Rental income	115,909	111,862
Interest expense	(1,050,169)	(1,235,075)
Other, net	<u>(23,078)</u>	<u>(25,847)</u>
Total non-operating revenues (expenses)	<u>(393,588)</u>	<u>(805,771)</u>
Income before contributions	1,672,713	1,007,621
Capital contributions	<u>1,384,298</u>	<u>140,092</u>
Change in net assets	<u>3,057,011</u>	<u>1,147,713</u>
Net assets, beginning of year	<u>41,137,229</u>	<u>39,989,516</u>
Net assets, end of year	<u><u>\$ 44,194,240</u></u>	<u><u>\$ 41,137,229</u></u>

### FINANCIAL ANALYSIS

Current assets (not restricted) decreased 1.3% primarily due to a decrease in cash. Water Works increased the amount of money invested in certificates of deposit in 2006.

Current liabilities increased 29.7% primarily due to an increase in construction payables in the amount of \$397,663 for water system improvements.

Long-term liabilities increased 14.5% due to the purchase of an additional 2 MG per day of purchased water capacity from Des Moines Water Works.

Water sales increased 7.4% due to a water rate increase in January and continued growth in West Des Moines. Water rates are designed only to cover the cost of water service to the customers.



Connection fees increased 38.3% primarily due to an increase in billings for the Southwest Area Connection Fee District in 2006.

Other sales and services increased 34.7% for a variety of reasons which included the following. Sales of materials increased by 116.5% due to an increase in water main taps for new construction. Construction inspection fees increased by 334.0% due to an increase in water main installation by private developers. Late and non-payment fees decreased 24.3% due to a change in the municipal service billing process.

Chemicals and power expenses increased 0.6% due to an increase in the amount of water produced in 2006.

Purchased water expense increased 32.2% primarily due to maintenance on several well pumps requiring additional water to be purchased.

Cost of corporate insurance increased 3.5% due to expected and budgeted insurance coverage increases in the insurance industry.

Maintenance and supplies expense increased 8.3% as budgeted and expected.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

During 2006, net capital assets increased \$5,688,981 or 10.8%. In addition to replacing unlined cast iron water mains, the Water Works is engaged in a multi-year capital project to build a 2 million gallon water tower. An additional 2 MGD of capacity in Des Moines Water Works Plant was purchased at a cost of \$3,800,000.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

West Des Moines Water Works does not receive any federal, state, or city funding, therefore the slowing of the national economy and state funding cuts have not had an impact on operations. The Board of Trustees approved a conservative operating budget increase for 2007 with revenues projected to increase by 6.5% and expenses projected to increase by 8.4% from the 2006 budget. There was no water rate increase necessary for the 2007 budget. Water rates are designed only to cover the cost of water service to the customers.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of West Des Moines Water Works' finances. If you have any questions or require additional information, please contact the General Manager at 4200 Mills Civic Parkway, Suite 1D, West Des Moines, IA 50265-2049.

## FINANCIAL STATEMENTS

# WEST DES MOINES WATER WORKS

## STATEMENTS OF NET ASSETS

December 31, 2006 and 2005

ASSETS			LIABILITIES AND NET ASSETS		
	2006	2005		2006	2005
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Cash	\$ 2,016,579	\$ 2,564,291	Accounts payable	\$ 344,778	\$ 162,243
Investments	2,260,927	2,315,149	Accrued payroll	69,139	62,426
Accounts receivable	983,986	553,369	Accrued vacation	101,461	93,702
Inventory	90,069	60,698	Accrued sales tax	26,903	29,768
Unexpired insurance	57,931	55,756	Deferred revenue	40,751	40,868
Unamortized bond discount	9,206	9,206	Bond premium	2,448	2,448
Unamortized bond issue costs	15,089	14,300	Accrued interest payable	45,598	48,910
Deposits	3,667	-	Current portion of long-term debt	<u>1,226,343</u>	<u>1,078,968</u>
Accrued interest receivable	<u>178,119</u>	<u>114,946</u>		<u>1,857,421</u>	<u>1,519,333</u>
	<u>5,615,573</u>	<u>5,687,715</u>			
<b>RESTRICTED ASSETS</b>			Payable from restricted assets:		
Cash	323,765	438,438	Customer deposits	210,353	203,926
Investments	6,505,627	5,503,290	Accounts payable	631,193	233,530
Accounts receivable for City of WDM	591,083	502,457	Payable to City of West Des Moines	<u>1,930,486</u>	<u>1,611,684</u>
Accounts receivable	93,045	95,685		<u>2,772,032</u>	<u>2,049,140</u>
Deposit - water revenue bond fund	<u>1,163,606</u>	<u>890,863</u>			
	<u>8,677,126</u>	<u>7,430,733</u>	Total current liabilities	<u>4,629,453</u>	<u>3,568,473</u>
Total current assets	<u>14,292,699</u>	<u>13,118,448</u>	<b>LONG-TERM LIABILITIES</b>		
			Revenue Bonds - net of current portion	<u>22,188,056</u>	<u>19,379,399</u>
			Total long-term liabilities	<u>22,188,056</u>	<u>19,379,399</u>
<b>CAPITAL ASSETS</b>					
Land	620,768	592,548	<b>OTHER LIABILITIES</b>		
Buildings and structures	18,915,414	19,038,089	Deposit - shared water tower	82,744	61,021
Machinery and equipment	8,266,268	8,182,948	Deferred revenue	1,931,164	1,995,730
Mains and hydrants - constructed by Water Works	19,191,573	18,207,092	Bond premium	<u>24,480</u>	<u>26,928</u>
Mains and hydrants - contributed by developers	15,506,470	14,122,172	Total other liabilities	<u>2,038,388</u>	<u>2,083,679</u>
Wells	4,748,318	4,748,318			
Meters	2,663,499	2,486,021	Total liabilities	<u>28,855,897</u>	<u>25,031,551</u>
Treatment plant capacity - Des Moines Water Works	10,619,125	6,819,125			
Construction in progress	<u>1,490,516</u>	<u>222,459</u>	<b>NET ASSETS</b>		
	82,021,951	74,418,772	Invested in capital assets, net of related debt	32,691,702	30,267,056
Less accumulated depreciation	<u>(23,488,383)</u>	<u>(21,574,185)</u>	Restricted for debt service	2,869,320	2,611,976
			Restricted for capital improvements	3,584,222	2,942,127
Net capital assets	<u>58,533,568</u>	<u>52,844,587</u>	Unrestricted	<u>5,048,996</u>	<u>5,316,070</u>
			Total net assets	<u>44,194,240</u>	<u>41,137,229</u>
<b>OTHER ASSETS</b>					
Unamortized bond discount	95,615	76,226			
Unamortized bond issue costs	<u>128,255</u>	<u>129,519</u>			
Total other assets	<u>223,870</u>	<u>205,745</u>			
Total Assets	<u>\$ 73,050,137</u>	<u>\$ 66,168,780</u>	Total Liabilities and Net Assets	<u>\$ 73,050,137</u>	<u>\$ 66,168,780</u>

See notes to financial statements.

# WEST DES MOINES WATER WORKS

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>		
Sale of water	\$ 7,267,402	\$ 6,766,835
Basic service charge	739,008	689,966
Connection fees	997,723	721,199
EPA grant	46,005	10,295
Labor charges	58,630	30,539
Sanitary sewer service collection fees	43,747	42,845
Solid waste service collection fees	40,889	40,463
Stormwater service collection fees	20,513	-
Late and non-payment charges	79,284	93,702
Sale of materials	93,711	43,286
Meter reading fees	67,585	11,741
Shared water tower revenue	40,868	6,811
Miscellaneous	139,337	47,120
Total operating revenues	<u>9,634,702</u>	<u>8,504,802</u>
<b>OPERATING EXPENSES</b>		
Water treatment plant operation and maintenance		
Salaries	599,111	571,887
Retirement and employee benefits	198,898	168,089
Utilities	304,307	310,733
Chemicals	282,979	283,723
Purchased water	732,068	553,622
Maintenance	394,881	265,935
Lime residuals removal	200,826	144,607
Insurance	53,344	52,551
Supplies	23,893	20,873
Communications	19,126	16,947
Water quality testing fees	11,126	10,127
Miscellaneous	2,688	7,553
Operation permit	6,275	6,604
Safety consulting fees	945	1,275
Depreciation	1,021,519	925,159
Data processing	19,858	18,890
	<u>3,871,844</u>	<u>3,358,575</u>
Water distribution system operation and maintenance		
Salaries	612,142	555,916
Retirement and employee benefits	208,920	174,786
Maintenance	183,832	180,184
Utilities	74,207	62,961
Insurance	37,071	34,650
Supplies	22,251	24,021

See notes to financial statements.

# WEST DES MOINES WATER WORKS

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - CONTINUED

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING EXPENSES - CONTINUED		
Water distribution system operation and maintenance - continued		
Miscellaneous	\$ 155	\$ 1,854
Iowa One Call	4,508	4,661
Communications	4,049	3,983
Depreciation	982,589	884,357
Data processing	<u>16,108</u>	<u>16,989</u>
	<u>2,145,832</u>	<u>1,944,362</u>
Accounting and customer service		
Salaries	567,093	500,598
Retirement and employee benefits	181,720	135,634
Postage	86,723	83,949
Printing	74,351	54,545
Insurance	23,273	22,668
Supplies	15,953	14,635
Communications	4,798	4,479
Maintenance	28,120	20,650
Bad debts	5,951	6,581
Lock box charges	47,082	34,269
Miscellaneous	3,652	3,959
Utilities	5,138	5,358
Depreciation	85,738	107,826
Cost of materials sold	69,358	29,368
Data processing	<u>26,836</u>	<u>23,590</u>
	<u>1,225,786</u>	<u>1,048,109</u>
Administration		
Salaries	194,149	183,232
Retirement and employee benefits	59,168	52,562
Professional and consulting fees	37,503	79,686
Legal publications	9,137	10,682
Dues and memberships	10,113	9,468
Communication	1,216	1,073
Maintenance	789	247
Miscellaneous	<u>12,864</u>	<u>3,414</u>
	<u>324,939</u>	<u>340,364</u>
Total operating expenses	<u>7,568,401</u>	<u>6,691,410</u>
Operating income	2,066,301	1,813,392

See notes to financial statements.

# WEST DES MOINES WATER WORKS

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - CONTINUED

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
NON-OPERATING REVENUES		
Interest	\$ 563,750	\$ 343,289
Bond premium	2,448	2,448
Rental	<u>115,909</u>	<u>111,862</u>
Total non-operating revenues	682,107	457,599
NON-OPERATING EXPENSES		
Interest	1,050,169	1,235,075
Bond discount	10,568	9,206
Bond issue costs	14,958	14,300
Loss on sale of fixed assets	<u>-</u>	<u>4,789</u>
Total non-operating expenses	<u>1,075,695</u>	<u>1,263,370</u>
Income before contributions	1,672,713	1,007,621
CAPITAL CONTRIBUTIONS	<u>1,384,298</u>	<u>140,092</u>
CHANGE IN NET ASSETS	3,057,011	1,147,713
NET ASSETS AT BEGINNING OF YEAR	<u>41,137,229</u>	<u>39,989,516</u>
NET ASSETS AT END OF YEAR	<u>\$ 44,194,240</u>	<u>\$ 41,137,229</u>

See notes to financial statements.

# WEST DES MOINES WATER WORKS

## STATEMENTS OF CASH FLOWS

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 9,085,537	\$ 8,590,598
Cash payments for goods and services	(3,007,002)	(2,946,710)
Cash payments to employees	<u>(1,958,022)</u>	<u>(1,797,139)</u>
Net cash provided by operating activities	<u>4,120,513</u>	<u>3,846,749</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(5,993,676)	(2,081,791)
Deposits - shared water tower	(42,960)	61,021
Proceeds from issuance and refunding of revenue bonds	4,105,000	-
Principal paid on revenue bonds	(1,148,968)	(1,032,955)
Bond discount and bond issuance fees	(44,440)	-
Water revenue bond fund deposit	(272,743)	(862)
Deferred interest on bond refunding	-	356,783
Interest paid	<u>(1,053,481)</u>	<u>(1,238,727)</u>
Net cash used by capital and financing activities	<u>(4,451,268)</u>	<u>(3,936,531)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received	500,576	247,187
Rental income	<u>115,909</u>	<u>111,862</u>
Net cash provided by investing activities	<u>616,485</u>	<u>359,049</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>285,730</b>	<b>269,267</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>	<u><b>10,821,168</b></u>	<u><b>10,551,901</b></u>
<b>CASH AND CASH EQUIVALENTS END OF YEAR</b>	<u><u><b>\$ 11,106,898</b></u></u>	<u><u><b>\$ 10,821,168</b></u></u>

See notes to financial statements.

# WEST DES MOINES WATER WORKS

## STATEMENTS OF CASH FLOWS - CONTINUED

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 2,066,301	\$ 1,813,392
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,089,847	1,917,342
Decrease (increase) in assets:		
Accounts receivable	(519,795)	87,191
Inventory	(29,370)	(1,395)
Unexpired insurance	(2,175)	(1,644)
Deposits	(3,667)	-
Increase (decrease) in liabilities:		
Customer deposits	6,428	2,259
Accounts payable	501,338	18,129
Accrued payroll	6,712	2,901
Accrued vacation	7,759	11,593
Accrued sales tax	<u>(2,865)</u>	<u>(3,019)</u>
Total adjustments	<u>2,054,212</u>	<u>2,033,357</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,120,513</u>	<u>\$ 3,846,749</u>
Schedule of noncash capital and related financing - Contributions of water mains from contractors for construction, and equipment contributions.	\$ 1,384,298	\$ 140,092

See notes to financial statements.



## **WEST DES MOINES WATER WORKS**

### **NOTES TO FINANCIAL STATEMENTS**

Years ended December 31, 2006 and 2005

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **A. Reporting Entity**

The West Des Moines Water Works was established by the City of West Des Moines, Iowa to supply water to the City and its inhabitants. Since November 7, 1950, the Water Works has been under the management and control of a Board of Trustees and the accounts of the Water Works are maintained separately from those of the City of West Des Moines, Iowa. The Code of Iowa, Chapter 388, states that the Board of Trustees has the oversight responsibility for the management and control of the Water Works.

Water Works is exempt from federal income tax pursuant to Internal Revenue Code Section 115 which provides for exemption of divisions of state and local governments.

##### **B. Fund Accounting**

The accounts of the Water Works are organized on the basis of funds or groups of accounts. Each fund or group of accounts is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of accounts for cash and investment balances, receipts and disbursements. A description of each of the existing funds is set forth as follows:

###### **Water Revenue Fund**

The Water Revenue Fund is the general operating fund of the Water Works. This fund is used to account for the utility services which are financed and operated primarily from user charges to the general public.

###### **Bond Retirement Fund**

The Bond Retirement Fund is used to provide and account for principal and interest payments on the water revenue bonds issued.

###### **Trust Fund**

The Trust Fund has been established to account for deposits received from customers.

##### **C. Cash**

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid with maturities of three months or less are considered to be cash equivalents.

##### **D. Investments**

The cash balances of the Water Works are pooled and invested. Investments are stated at cost, which approximates market value. Interest is recorded in the fund owning the investment and transferred to the Water Revenue Fund. In order to obtain a high rate of return, some investments are pooled.

## WEST DES MOINES WATER WORKS

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2006 and 2005

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Accounts Receivable

Accounts receivable and revenues are recorded at the time that service is billed. Unbilled revenues for service consumed between periodic scheduled billing dates are not considered to have a material effect on the financial statements.

F. Inventories

Proprietary fund type inventories of materials and supplies are valued at the lower of cost (average cost) or market.

G. Property, Plant and Equipment

Property, plant and equipment are stated at cost or at the value of the contributions to the Water Works for mains and hydrants by developers. Depreciation is computed on the straight-line basis over estimated useful lives of five to fifty years.

Expenditures for maintenance, repairs and minor replacements are charged to operations. Expenditures for major repairs and betterments are capitalized.

The cost and related accumulated depreciation on property, plant and equipment sold or retired are eliminated from the accounts at the time of sale or retirement and the resulting gain or loss is reflected in operations.

H. Budget

In accordance with the Code of Iowa, the Water Works adopted a budget based upon anticipated expenditures by line item for operations. The budget was prepared on an accrual basis which is consistent with generally accepted accounting principles. The budget was amended at the November 6, 2006 board meeting.

I. Sanitary Sewer, Solid Waste, and Stormwater Management Service

The West Des Moines Water Works bills and collects sanitary sewer service charges, solid waste charges, and stormwater management fees in accordance with the city ordinances for the City of West Des Moines, Iowa.

Sanitary sewage is collected in sewers owned by the City of West Des Moines, Iowa, and is treated at the Wastewater Reclamation Authority (WRA) sewage treatment plant. Remittances are due to the City within seventy-five days after the end of each billing period. The West Des Moines Water Works is reimbursed for a portion of the expense of billing and collecting the sanitary sewer service, solid waste charges, and stormwater management fees at rates agreed upon by the City of West Des Moines and West Des Moines Water Works.

## **WEST DES MOINES WATER WORKS**

### **NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2006 and 2005

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**J. Basis of Accounting**

The Proprietary fund types are reported using the accrual basis of accounting. Their revenues are recognized when earned and expenses are recognized when incurred.

Operating revenues and expenses: Operating revenues include revenues resulting from the sale of water and related services. Operating expenses include expenses for water treatment, distribution, depreciation, customer accounts, customer service and informational, sales, and administrative and general. Nonoperating revenues and expenses include those derived from capital and related financing activities, noncapital financing activities, and investing activities. Revenues from the sale of water are based on billing rates, which are applied to customer's consumption of water.

The Water Works applies all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedures. In addition, Water Works may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

**K. Net Assets**

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Water Works' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**L. Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## WEST DES MOINES WATER WORKS

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2006 and 2005

#### NOTE 2 - CASH AND INVESTMENTS

The West Des Moines Water Works deposits in financial institutions as of December 31, 2006 and through the year are covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C, Code of Iowa. This Chapter provides additional assessments against the depositories to ensure that there is no loss of public funds.

As of December 31, 2006, \$3,500,000 was invested in several twelve month certificates of deposit at Veridian Credit Union. The amount of this deposit in excess of \$100,000 was collateralized with a letter of credit held by the Water Works in the amount of 110% or \$3,740,000.

The West Des Moines Water Works investments are categorized to give an indication of the level of risk assumed by the Water Works at year's end. The West Des Moines Water Works investments are all category 1, which means that the investments are insured or registered or the securities are held by the West Des Moines Water Works or its agent in the name of the West Des Moines Water Works.

As of December 31, 2006 and 2005 all monies of the West Des Moines Water Works were invested in lawful depositories of the Water Works.

The West Des Moines Water Works cash and investments at December 31, 2006 are as follows:

<u>Cash and Investments</u>	<u>Category</u>	
Cash	1	\$ 2,340,345
Certificates of Deposit	1	8,000,000
Iowa Public Agency Investment Trust	1	<u>766,553</u>
TOTAL		<u>\$ 11,106,898</u>

The West Des Moines Water Works cash and investments at December 31, 2005 are as follows:

<u>Cash and Investments</u>	<u>Category</u>	
Cash	1	\$ 3,002,729
Certificates of Deposit	1	7,000,000
Iowa Public Agency Investment Trust	1	<u>818,439</u>
TOTAL		<u>\$ 10,821,168</u>

# WEST DES MOINES WATER WORKS

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2006 and 2005

### NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2006 was as follows:

	<u>Balance 1/01/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/06</u>
Capital assets not being depreciated:				
Land	\$ 592,548	\$ 28,220	\$ -	\$ 620,768
Construction in progress	<u>222,459</u>	<u>2,264,679</u>	<u>(996,622)</u>	<u>1,490,516</u>
Total capital assets not being depreciated	<u>815,007</u>	<u>2,292,899</u>	<u>(996,622)</u>	<u>2,111,284</u>
Capital assets being depreciated:				
Buildings and structures	\$19,038,089	\$ 24,264	\$ (146,939)	\$18,915,414
Machinery and equipment	8,182,948	157,386	(74,066)	8,266,268
Mains and hydrants	18,207,092	996,623	(12,142)	19,191,573
Mains and hydrants - developers	14,122,172	1,384,298	-	15,506,470
Wells	4,748,318	-	-	4,748,318
Meters in service	2,486,021	177,478	-	2,663,499
DMWW plant capacity 5.0 MG	5,000,000	-	-	5,000,000
DMWW plant capacity 1.323 MG	1,819,125	-	-	1,819,125
DMWW plant capacity 2 MG	<u>-</u>	<u>3,800,000</u>	<u>-</u>	<u>3,800,000</u>
Total capital assets being depreciated	<u>73,603,765</u>	<u>6,540,049</u>	<u>(233,147)</u>	<u>79,910,667</u>
Less accumulated depreciation for:				
Buildings and structures	5,111,677	384,709	(101,583)	5,394,803
Machinery and equipment	3,286,781	482,234	(74,066)	3,694,949
Mains and hydrants	3,696,633	378,879	-	4,075,512
Mains and hydrants - developers	5,239,468	293,712	-	5,533,180
Wells	1,581,355	156,097	-	1,737,452
Meters in service	1,314,392	128,738	-	1,443,130
DMWW plant capacity 5.0 MG	1,093,750	125,000	-	1,218,750
DMWW plant capacity 1.323 MG	250,129	45,478	-	295,607
DMWW plant capacity 2 MG	<u>-</u>	<u>95,000</u>	<u>-</u>	<u>95,000</u>
Total accumulated depreciation	<u>21,574,185</u>	<u>2,089,847</u>	<u>(175,649)</u>	<u>23,488,383</u>
Total capital assets being depreciated, net	<u>52,029,580</u>	<u>4,450,202</u>	<u>(57,498)</u>	<u>56,422,284</u>
Net capital assets	<u>\$ 52,844,587</u>	<u>\$6,743,101</u>	<u>\$(1,054,120)</u>	<u>\$58,533,568</u>

# WEST DES MOINES WATER WORKS

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2006 and 2005

### NOTE 3 - CAPITAL ASSETS - CONTINUED

Capital assets activity for the year ended December 31, 2005 was as follows:

	<u>Balance 1/01/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/05</u>
Capital assets not being depreciated:				
Land	\$ 592,548	\$ -	\$ -	\$ 592,548
Construction in progress	<u>2,142,398</u>	<u>3,317,981</u>	<u>(5,237,920)</u>	<u>222,459</u>
Total capital assets not being depreciated	<u>2,734,946</u>	<u>3,317,981</u>	<u>(5,237,920)</u>	<u>815,007</u>
Capital assets being depreciated:				
Buildings and structures	\$15,799,123	\$ 3,246,455	\$ (7,489)	\$19,038,089
Machinery and equipment	8,129,466	247,571	(194,089)	8,182,948
Mains and hydrants	16,525,611	1,866,127	(184,646)	18,207,092
Mains and hydrants - developers	13,982,080	140,092	-	14,122,172
Wells	4,748,318	-	-	4,748,318
Meters in service	2,340,253	145,768	-	2,486,021
DMWW plant capacity 5.0 MG	5,000,000	-	-	5,000,000
DMWW plant capacity 1.323 MG	<u>1,819,125</u>	<u>-</u>	<u>-</u>	<u>1,819,125</u>
Total capital assets being depreciated	<u>68,343,976</u>	<u>5,646,013</u>	<u>(386,224)</u>	<u>73,603,765</u>
Less accumulated depreciation for:				
Buildings and structures	4,758,251	353,950	(524)	5,111,677
Machinery and equipment	2,984,444	496,426	(194,089)	3,286,781
Mains and hydrants	3,356,750	339,883	-	3,696,633
Mains and hydrants - developers	4,960,079	279,389	-	5,239,468
Wells	1,424,797	156,558	-	1,581,355
Meters in service	1,193,735	120,657	-	1,314,392
DMWW plant capacity 5.0 MG	968,750	125,000	-	1,093,750
DMWW plant capacity 1.323 MG	<u>204,651</u>	<u>45,478</u>	<u>-</u>	<u>250,129</u>
Total accumulated depreciation	<u>19,851,457</u>	<u>1,917,341</u>	<u>(194,613)</u>	<u>21,574,185</u>
Total capital assets being depreciated, net	<u>48,492,519</u>	<u>3,728,672</u>	<u>(191,611)</u>	<u>52,029,580</u>
Net capital assets	<u>\$51,227,465</u>	<u>\$ 7,046,653</u>	<u>\$(5,429,531)</u>	<u>\$52,844,587</u>

## WEST DES MOINES WATER WORKS

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2006 and 2005

#### NOTE 4 - LONG TERM LIABILITIES

The West Des Moines Water Works entered into an agreement with the Des Moines Water Works for the construction of the Louise P. Moon Storage and Pumping Facility (f.k.a. the Westside Storage and Pumping Facility). Per the Water Service Enhancement Master Agreement dated April 12, 1993 (as amended), the West Des Moines Water Works' proportionate share of the Des Moines Water Works Bonds, Series 2001 issued by the Des Moines Water Works has been reduced to \$3,385,816 from \$3,570,462. This reduction is due to a materials valuation adjustment made in April, 2005. The interest rates on the bonds vary from 3.0% to 3.6%.

#### PURCHASE OF WATER TREATMENT PLANT CAPACITY:

- A. The West Des Moines Water Works entered into an agreement with the Des Moines Water Works for the purchase of five million gallons per day of water treatment plant capacity. Per the Water Treatment Plant Purchased Capacity Master Agreement dated July 23, 1996, the West Des Moines Water Works proportionate share of the Des Moines Water Works Bonds, Series 1997 issued by the Des Moines Water Works is \$5,640,000. The interest rates on the bonds vary from 5.25% to 5.40%.

Series 1997 bonds have been replaced by the Refunding Water Revenue Bonds Series 2004B. In order to reduce interest costs, the Des Moines Water Works issued Refunding Water Revenue Bonds Series 2004B effective December 1, 2004 to carry out an advance refunding of callable maturities from their Series 1997 Bonds. The interest rates on the bonds vary from 2.5% to 4.0%.

- B. The West Des Moines Water Works entered into the First Amendment to Acceptance of Purchased Capacity Master Agreement on May 23, 2000. West Des Moines Water Works agreed to pay for additional capacity of 1.323 million gallons per day by assumption of \$1,819,125 of the Des Moines Water Works' outstanding obligation under the 1997 Bond Issue. The interest rates on the bonds vary from 5.25% to 5.40%.

Series 1997 bonds have been replaced by the Refunding Water Revenue Bonds Series 2004B. In order to reduce interest costs, the Des Moines Water Works issued Refunding Water Revenue Bonds Series 2004B effective December 1, 2004 to carry out an advance refunding of callable maturities from their Series 1997 Bonds. The interest rates on the bonds vary from 2.5% to 4.0%.

- C. The West Des Moines Water Works entered into the Wholesale Water Service Master Agreement with the Des Moines Water Works on June 13, 2005, agreeing to purchase an additional two million gallons per day of water treatment plant capacity. West Des Moines Water Works proportionate share in the Des Moines Water Works 2006 Water Revenue Bonds is \$4,105,000. The interest rates on the bonds vary from 4.000% to 4.375%.

The Water Revenue Bonds, Series 1998A, 1998B, and 2004 Revenue Refunding were issued by the West Des Moines Water Works, under resolutions of the Board of Trustees of the Water Works. The following is a summary of the major provisions and restrictions of the resolutions.

Interest is payable on the first day of June and December.

# WEST DES MOINES WATER WORKS

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2006 and 2005

### NOTE 4 - LONG TERM LIABILITIES - CONTINUED

Bonds and interest are payable from the future net earnings of the Water Works and the net earnings of the Water Works are pledged to the payment of the bonds and interest.

The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6th of the installment of interest coming due on the next interest payment date on the then outstanding Bonds and Parity Bonds plus 1/12th of the installment of principal coming due on such Bonds on the next succeeding principal payment date until the full amount of such installment is on hand. The balance at December 31, 2006 and 2005 is \$123,798 and \$127,013.

The Bond Resolution requires that the Debt Service Reserve Fund be maintained in an amount equal to at least the lesser of the maximum annual debt service on the Bonds and the Parity Bonds, or 10% of the stated principal amount of the Bonds and Parity Bonds. The balance at December 31, 2006 and 2005 is at the maximum of \$1,605,910 and \$1,605,910, respectively.

In the Future Capital Outlay Fund, the minimum amount to be deposited in the Fund each month shall be \$30,000; provided, however, that when the amount in said fund shall equal or exceed \$750,000, no further monthly deposits need be made into the Fund except to maintain it at such level. The balance at December 31, 2006 and 2005 is \$3,419,476 and \$2,798,057.

Changes in long-term obligations for the year ended December 31, 2006 are as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Water Revenue Bonds					
Series 1998A	\$ 1,430,000	\$ -	\$ (80,000)	\$ 1,350,000	\$ 85,000
Series 1998B	6,315,000	-	(580,000)	5,735,000	600,000
Series 2004 Refunding	5,365,000	-	(50,000)	5,315,000	50,000
Series 2001 (DMWW)	430,650	-	(227,241)	203,409	203,409
Series 2004B (DMWW)	5,451,827	-	(51,725)	5,400,102	82,760
Series 2004B (DMWW)	1,465,890	-	(90,002)	1,375,888	95,174
Series 2006 (DMWW - 2MG)	-	4,105,000	(70,000)	4,035,000	110,000
	<u>\$20,458,367</u>	<u>\$ 4,105,000</u>	<u>\$ (1,148,968)</u>	<u>\$23,414,399</u>	<u>\$1,226,343</u>



# WEST DES MOINES WATER WORKS

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2006 and 2005

### NOTE 4 - LONG TERM LIABILITIES - CONTINUED

Details of the revenue bonds payable at December 31, 2006 are as follows:

	Date of Issue	Interest Rate	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding Dec. 31, 2006
Series 1998A WRB	05/01/98	4.7 - 5.25%	12/01/18	\$150,000-\$156,000	\$ 2,000,000	\$ 1,350,000
Series 1998B WRB	05/01/98	4.7 - 5.15%	12/01/14	\$555,000-\$850,000	10,040,000	5,735,000
Series 2004 WRB	04/01/04	2.0 - 3.9%	12/01/16	\$241,000-\$791,000	5,415,000	5,315,000
Series 2001 WRB (DMWW)	10/01/01	3.0 - 3.6%	12/01/07	\$270,000-\$312,000	1,617,929	203,409
Series 2004B WRB (DMWW)	12/01/04	2.5 - 4.0%	12/01/16	\$239,000-\$753,000	5,498,380	5,400,102
Series 2004B WRB (DMWW)	12/01/04	2.5 - 4.0%	12/01/17	\$138,000-\$167,000	1,550,719	1,375,888
Series 2006 WRB (DMWW)	03/01/06	4.0 - 4.38%	12/01/06	\$197,000-\$308,000	4,150,000	4,035,000
Total						<u>\$23,414,399</u>

A summary of the annual revenue bonds principal and interest requirements to maturity is as follows:

Year Ending Dec. 31,	Principal	Interest	Total
2007	\$ 1,226,343	\$ 951,966	\$ 2,178,309
2008	1,496,218	901,584	2,397,802
2009	2,062,253	843,283	2,905,536
2010	2,193,288	766,751	2,960,039
2011	2,260,358	682,960	2,943,318
2012-2016	11,290,591	1,958,595	13,249,186
2017-2021	1,545,348	454,512	1,999,860
2022-2026	<u>1,340,000</u>	<u>179,456</u>	<u>1,519,456</u>
Totals	<u>\$23,414,399</u>	<u>\$ 6,739,107</u>	<u>\$30,153,506</u>

Changes in long-term obligations for the year ended December 31, 2005 are as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Water Revenue Bonds					
Series 1998A	\$ 1,505,000	\$ -	\$ (75,000)	\$ 1,430,000	\$ 80,000
Series 1998B	6,870,000	-	(555,000)	6,315,000	580,000
Series 2004 Refunding	5,415,000	-	(50,000)	5,365,000	50,000
Series 2001 (DMWW)	836,869	-	(406,219)	430,650	227,241
Series 2004B (DMWW)	5,498,380	-	(46,553)	5,451,827	51,725
Series 2004B (DMWW)	<u>1,550,719</u>	<u>-</u>	<u>(84,829)</u>	<u>1,465,890</u>	<u>90,002</u>
	<u>\$21,675,968</u>	<u>\$ -</u>	<u>\$ (1,217,601)</u>	<u>\$20,458,367</u>	<u>\$1,078,968</u>

# WEST DES MOINES WATER WORKS

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2006 and 2005

### NOTE 4 - LONG TERM LIABILITIES - CONTINUED

Details of the revenue bonds payable at December 31, 2005 are as follows:

	Date of Issue	Interest Rate	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding Dec. 31, 2005
Series 1998A WRB	05/01/98	4.7 - 5.25%	12/01/18	\$150,000-\$156,000	\$ 2,000,000	\$ 1,430,000
Series 1998B WRB	05/01/98	4.7 - 5.15%	12/01/14	\$555,000-\$850,000	10,040,000	6,315,000
Series 2004 WRB	04/01/04	2.0 - 3.9%	12/01/16	\$241,000-\$791,000	5,415,000	5,365,000
Series 2001 WRB (DMWW)	10/01/01	3.0 - 3.6%	12/01/07	\$270,000-\$312,000	1,617,929	430,650
Series 2004B WRB (DMWW)	12/01/04	2.5 - 4.0%	12/01/16	\$239,000-\$753,000	5,498,380	5,451,827
Series 2004B WRB (DMWW)	12/01/04	2.5 - 4.0%	12/01/17	\$138,000-\$167,000	1,550,719	1,465,890
Total						<u>\$20,458,367</u>

A summary of the annual revenue bonds principal and interest requirements to maturity is as follows:

Year Ending Dec. 31,	Principal	Interest	Total
2006	\$ 1,078,968	\$ 829,490	\$ 1,908,458
2007	1,116,343	786,209	1,902,552
2008	1,351,218	740,220	2,091,438
2009	1,917,253	687,720	2,604,973
2010	2,038,288	616,989	2,655,277
2011-2015	10,774,725	1,787,724	12,562,449
2016-2018	<u>2,181,572</u>	<u>120,643</u>	<u>2,302,215</u>
Totals	<u>\$20,458,367</u>	<u>\$ 5,568,995</u>	<u>\$26,027,362</u>

### NOTE 5 - RESTRICTED ASSETS

The West Des Moines Water Works' restricted assets are composed of customer deposits, deposits on bond issuance, funds restricted for capital improvements and collections for sanitary sewer service, solid waste service, stormwater management fees, and human services donations for the City of West Des Moines.

### NOTE 6 - PENSION AND RETIREMENT BENEFIT

The Water Works contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

## **WEST DES MOINES WATER WORKS**

### **NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2006 and 2005

#### **NOTE 6 - PENSION AND RETIREMENT BENEFIT - CONTINUED**

Plan members are required to contribute 3.70% of their annual salary and the Water Works is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Water Works contribution to IPERS for the years ended December 31, 2006, 2005, and 2004 was \$111,120, \$101,948, and \$96,609, respectively, equal to the required contributions for each year.

#### **NOTE 7 - COMPENSATED ABSENCES**

The West Des Moines Water Works' employees accumulate vacation benefits for subsequent use or payable on termination, death or retirement. These accumulations are recorded as liabilities and expenses in the year earned.

The West Des Moines Water Works does not accrue a liability related to the accumulation of sick leave, because its policy states that the amounts are payable only on retirement. Therefore, individual payment is not necessarily probable and is not subject to estimation.

#### **NOTE 8 - DEFERRED COMPENSATION PLAN**

West Des Moines Water Works offers to all of its full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits the employees to defer a portion of their salary until future years. The deferred compensation is not available for payment to employees until termination, retirement, death, or unforeseeable emergency.

West Des Moines Water Works implemented Governmental Accounting Standards Board Statements No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which requires assets of a governmental sponsored 457 plan to be held in a trust for the exclusive benefit of participants and their beneficiaries. Internal Revenue Code Section 457(g)(3) as amended, provides that an annuity contract described in Code Section 401(f) shall be treated as a trust.

The 457 plan administrators prepared amendments to the existing contracts to meet the requirements of Code Section 401(f). The amendments also provide that the assets and income of the contracts are for the exclusive benefit of the plan participants or beneficiaries, and would not be subject to the claims of the governmental employer's creditors. Accordingly, these plan assets are not reported in the Water Works' financial statements.

#### **NOTE 9 - JOINT VENTURE**

On May 14, 2001 the Water Works approved the first amendment to intergovernmental agreement for the joint occupation of municipal offices (Chapter 28E of the Code of Iowa) with the City of West Des Moines for joint occupancy in a new City Hall facility. The West Des Moines Water Works' total cost is \$546,761, of which \$546,761 has been paid.

## **WEST DES MOINES WATER WORKS**

### **NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2006 and 2005

#### **NOTE 9 - JOINT VENTURE - CONTINUED**

On May 14, 1993 the Water Works entered into an intergovernmental agreement (Chapter 28E of the Code of Iowa) with the City of West Des Moines and the Park Board of Commissioners of the West Des Moines Parks and Recreation Department. Under the agreement, they jointly developed a parcel of land (58 acres) owned by the City to provide recreation resources and water resources for residents. The Water Works constructed eight shallow wells and one deep well on the site. The Water Works has paid the City \$450,000 for the use of the land. This agreement is for ninety-nine years and expires on May 14, 2092.

On November 12, 2001 the Water Works entered into an amended and substituted intergovernmental agreement (Chapter 28E of the Code of Iowa) for the purpose of (1) creating the Central Iowa Committee to succeed the Urban Standard Specifications Committee; (2) authorizing the Central Iowa Committee to temporarily license said urban design standards and urban standard specifications to the Center for Transportation Research and Education (CTRE) and to the Iowa Department of Transportation (Iowa DOT); (3) authorizing the Central Iowa Committee to assign said urban design standards and urban standard specifications to a statewide organization to be formed to oversee the continuing development and upgrading thereof; and (4) authorizing the City of Des Moines, as administrator, to assign to CTRE its consultant contract with Snyder and Associates for the provision of professional services. Under the agreement design standards will be developed and updated, and standard specifications for the construction of public improvements will be developed.

On November 20, 2003 the Water Works entered into an Agreement for Shared Use of Water Tower Capacity (this is not a 28E agreement) with the City of Clive, the City of Waukee and the Des Moines Water Works. On November 1, 2005 that water tower was put into service. The cities of Clive and Waukee pay 40% and 20% respectively, of the total project cost to West Des Moines Water Works for shared capacity of the water tower. The water tower is recorded at cost on West Des Moines Water Works' fixed asset schedule, and the payments made by Clive and Waukee are recorded as a deferred revenue liability to be recognized over the 50 year life of the water tower. This agreement will remain in effect through the useful life of the water tower plus one year. A shared water tower fund has been created into which Clive, Waukee and West Des Moines Water Works contribute annually for property insurance and future painting of the tower.

On November 1, 2005 the Water Works entered into intergovernmental (Chapter 28E of the Code of Iowa) agreements for meter reading services with the City of Clive and the City of Waukee. West Des Moines Water Works will read water meters for Clive and water and gas meters for Waukee. The initial term of these agreements is three years from November 1, 2005. Thereafter, the term of services shall automatically renew for successive three year terms on each November 1<sup>st</sup> unless either party shall give written notice of termination to the other.

#### **NOTE 10 - RELATED ORGANIZATION**

The West Des Moines Water Works uses services of the City of West Des Moines and also provides billing and collection services to the City in connection with the City's Sewer, Solid Waste, and Stormwater Management Enterprise Funds. The following is a summary of the related party transactions for the year ended December 31, 2006 and 2005:

# WEST DES MOINES WATER WORKS

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2006 and 2005

### NOTE 10 - RELATED ORGANIZATION - CONTINUED

	Amount <u>2006</u>	Amount <u>2005</u>
Received from the City of West Des Moines		
Miscellaneous	\$ 105	\$ 1,124
Iowa One Call	3,084	4,657
Sanitary sewer service collection fees	43,747	42,845
Solid waste service collection fees	40,889	40,463
Stormwater service collection fees	20,513	-
Payments to the City of West Des Moines		
Sanitary sewer service	\$5,221,731	\$5,102,329
Solid waste service	1,361,964	1,343,468
Sewer availability fee	126,468	27,320
City capital fee	49,298	22,978
Stormwater services	407,830	-
Health and dental insurance premiums	381,980	276,382
General insurance premiums	117,313	112,966
Gasoline	30,089	22,573
Utilities	17,202	13,790
Miscellaneous	2,068	2,482
Donations collected	7,496	7,062
Janitorial services	9,516	9,210
Information services	35,000	35,000
West Des Moines Magazine and City Survey	6,125	1,500
Recruitment expenses	3,076	4,438
Computers/Network server	3,614	-
Railroad Avenue reconstruction	56,632	498,212

Amounts payable to the City of West Des Moines at December 31, 2006 for sanitary sewer charges, sewer availability fees, city capital fees, stormwater management fees, solid waste charges and donations to human services totaled \$1,221,121, \$49,861, \$10,893, \$343,088 and \$1,100 respectively and for 2005, \$1,238,313, \$24,508, \$8,145, \$339,547 and \$1,171 respectively.

### NOTE 11 - RISK MANAGEMENT

The Water Works, through the City of West Des Moines, is a member of the Iowa Communities Assurance Pool (Pool), as allowed by Chapter 384.12 of the Code of Iowa. The Pool is a local government risk-sharing pool whose 555 members include various governmental entities throughout the state of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, property, and inland marine. There have been no reductions in insurance coverage from prior years.

## **WEST DES MOINES WATER WORKS**

### **NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2006 and 2005

#### **NOTE 11 - RISK MANAGEMENT - CONTINUED**

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Water Works' property and casualty contributions to the Pool are recorded as expenditures from its operating funds at the time of payment to the Pool. The Water Works' annual contributions to the Pool for the year ended December 31, 2006 were \$43,109.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. West Des Moines Water Works coverage is \$8,000,000. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Water Works does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at December 31, 2006, no liability has been recorded in the Water Works' financial statements. As of June 30, 2006 settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. After the sixth year, the member is refunded 100% of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

## WEST DES MOINES WATER WORKS

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2006 and 2005

#### NOTE 11 - RISK MANAGEMENT - CONTINUED

The Water Works also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation, and employee blanket bonds. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### NOTE 12 - TOWER LEASE AGREEMENTS

The Water Works has entered into agreements with T-Mobile USA, Inc., United States Cellular Wireless Communications, Sprint Spectrum, L.P., Capital Communications Company, Inc., Nextel WIP Lease Corporation, Cingular Wireless, L.L.C., and Verizon Wireless for the rental of space on two elevated water storage facilities located in the City of West Des Moines. The agreements are for a period of five years. The agreement with Sprint Spectrum L.P. has a renewal option of four additional five year terms and the other agreements have the renewal option of five additional five year terms.

Future minimum rents under these leases at December 31, 2006 are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$119,077
2008	124,845
2009	125,886
2010	128,354
2011	133,206

Total rental income for 2006 was \$115,767.

#### NOTE 13 - DEFEASANCE OF DEBT

In current and prior years, certain outstanding bonds were defeased by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the financial statements. At December 31, 2006, the remaining balance of previously issued bonds outstanding are considered defeased.

<u>Obligation</u>	<u>Date</u>	<u>Defeased Balance</u>
1995 Water Revenue Bonds	1-05-95	\$5,650,000
1997 Water Revenue Bonds	9-01-97	5,000,000

## **WEST DES MOINES WATER WORKS**

### **NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2006 and 2005

#### **NOTE 13 - DEFEASANCE OF DEBT - CONTINUED**

The 1995 advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$697,598. This difference was charged to operations through the year 2002 using the effective interest method.

The 1997 advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt for West Des Moines Water Works of \$256,962 and for Des Moines Water Works of \$221,025. This difference was charged to operations through the year 2005 using the effective interest method. The remaining balance as of December 31, 2006 and 2005 was \$0 and \$0 respectively.

#### **NOTE 14 - UNION AGREEMENT**

The West Des Moines Water Works entered into an agreement as of January 1, 2004 with the American Federation of State, County and Municipal Employees Council 61 and Local 3673-15 (AFL-CIO). This agreement remained in full force and effect through December 31, 2006. A new agreement has been negotiated and has gone into effect beginning January 1, 2007 and continuing through December 31, 2009.

#### **NOTE 15 - COMMITMENTS**

The West Des Moines Water Works has entered into construction contracts totaling \$9,267,998 at December 31, 2006 and \$3,859,353 at December 31, 2005 for various capital projects. There were \$3,786,886 and \$1,104,666 of uncompleted contracts at December 31, 2006 and 2005 respectively.

On September 27, 2004 the U.S. Environmental Protection Agency (EPA) awarded the Water Works a grant for the operation of the Groundwater Remedial Action at the Railroad Avenue Superfund Site. Activities include the cleanup of contaminated groundwater and monitoring and administration of the aerators. The project period is from January 1, 2005 through December 31, 2011. The total project cost is projected to be approximately \$513,000. The EPA has approved partial funding up to and not exceeding \$350,000 at this time.

#### **NOTE 16 - CONTINGENCY**

##### Pending

A lawsuit has been filed against the City of West Des Moines, the West Des Moines Water Works, and Eco-Tech Construction, and is in the very early stages. Discovery has begun, and may be lengthy. No trial date has yet been scheduled. The litigation arises from a fire at a residence on December 19, 2004. Plaintiff's claims against the Water Works involve allegations of failure to properly inspect and maintain the water distribution system, including one specific hydrant in front of the residence, and failure to provide adequate water pressure to suppress the fire which damaged the residence and extensive contents. The total claim for property damage is stated in the Petition to be at least 4.5 million dollars, and there is also a claim for post-traumatic stress damages of an unspecified dollar amount.

The City of West Des Moines and the Board of Trustees for the West Des Moines Water Works intend to respond vigorously to the litigation and to contest the case. Based on early evaluation of the case, the attorneys believe the City and the West Des Moines Water Works have a number of strong factual and legal defenses.



**WEST DES MOINES WATER WORKS**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2006 and 2005

**NOTE 17 - SUBSEQUENT EVENT**

In March, 2007, the Water Works approved issuance of \$7,185,000 of refunding bonds to replace the 1998A and 1998B water revenue bonds.

## REQUIRED SUPPLEMENTARY INFORMATION

## WEST DES MOINES WATER WORKS

### BUDGETARY COMPARISON OF REVENUES, EXPENSES AND CHANGES IN BALANCES - ACTUAL TO BUDGET

Year ended December 31, 2006

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
TOTAL REVENUES	\$ 11,701,107	\$ 9,616,938	\$ 2,084,169
TOTAL EXPENSES	<u>8,644,096</u>	<u>8,708,003</u>	<u>63,907</u>
NET	3,057,011	908,935	<u>\$ 2,148,076</u>
BALANCE BEGINNING OF YEAR	<u>41,137,229</u>	<u>40,990,398</u>	
BALANCE END OF YEAR	<u>\$ 44,194,240</u>	<u>\$ 41,899,333</u>	

See notes to financial statements.

## **WEST DES MOINES WATER WORKS**

### **NOTE TO BUDGETARY REPORTING**

December 31, 2006

In accordance with the Code of Iowa, the Water Works' Board of Trustees adopts a budget on the accrual basis consistent with U.S. generally accepted accounting principles following required public notice and hearing. The formal and legal level of control is at the total expense level. The Board of Trustees reviews the proposed budget and grants final approval. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

In 2006 there was a budget amendment totaling \$200,000 for purchased water expense. Disbursements did not exceed the amended budget total.

## OTHER SUPPLEMENTARY INFORMATION

## WEST DES MOINES WATER WORKS

### SCHEDULE OF BOND MATURITIES

Year ended December 31, 2006

Proportionate share of the Series 2001 Water Revenue Refunding Bonds issued by the Des Moines Water Works and payable to the Des Moines Water Works per Water Service Enhancement Master Agreement for the Westside Storage Project dated April 12, 1993 (as amended) (see Note 4).

The following is a summary of the debt obligations to the Des Moines Water Works:

<u>Maturing December 1</u>	<u>Des Moines Water Works</u>	
	<u>Series 2001 Water Revenue Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	<u>\$ 203,409</u>	<u>\$ 7,323</u>
	<u><u>\$ 203,409</u></u>	<u><u>\$ 7,323</u></u>

## WEST DES MOINES WATER WORKS

### SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2006

Proportionate share of Series 2004B Water Revenue Refunding Bonds issued by the Des Moines Water Works and payable to the Des Moines Water Works per Water Treatment Plant Purchased Capacity Master Agreement dated July 23, 1996 (See Note 4).

The following is a summary of the debt obligations to the Des Moines Water Works:

<u>Maturing December 1</u>	<u>Des Moines Water Works</u>	
	<u>Series 2004B Water Revenue Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 82,760	\$ 190,206
2008	475,871	187,723
2009	501,734	173,447
2010	527,596	158,395
2011	553,459	142,568
2012	584,494	125,964
2013	615,529	106,968
2014	651,736	82,346
2015	682,771	56,277
2016	<u>724,152</u>	<u>28,966</u>
	<u>\$ 5,400,102</u>	<u>\$1,252,860</u>

## WEST DES MOINES WATER WORKS

### SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2006

Proportionate share of Series 2004B Water Revenue Refunding Bonds issued by the Des Moines Water Works and payable to the Des Moines Water Works per First Amendment to Acceptance of Purchased Capacity Master Agreement dated May 23, 2000 (See Note 4).

The following is a summary of the debt obligations to the Des Moines Water Works:

<u>Maturing December 1</u>	<u>Des Moines Water Works</u>	
	<u>Series 2004B Water Revenue Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 95,174	\$ 48,826
2008	100,347	45,971
2009	105,519	42,960
2010	110,692	39,795
2011	116,899	36,474
2012	123,106	32,967
2013	130,347	28,966
2014	136,554	23,752
2015	144,830	18,290
2016	152,072	12,497
2017	160,348	6,413
	<u>\$ 1,375,888</u>	<u>\$ 336,911</u>



# WEST DES MOINES WATER WORKS

## SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2006

Proportionate share of Series 2006 Water Revenue Bonds issued by the Des Moines Water Works and payable to the Des Moines Water Works per the Wholesale Water Service Master Agreement signed June 10, 2005 (See Note 4).

<u>Maturing December 1</u>	<u>Des Moines Water Works</u>	
	<u>Series 2006 Water Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 110,000	\$ 165,763
2008	145,000	161,362
2009	145,000	155,563
2010	155,000	149,762
2011	155,000	143,563
2012	165,000	137,362
2013	170,000	130,763
2014	175,000	123,962
2015	185,000	116,963
2016	190,000	109,562
2017	200,000	101,963
2018	210,000	93,962
2019	220,000	85,563
2020	230,000	76,762
2021	240,000	67,275
2022	245,000	57,375
2023	255,000	47,269
2024	265,000	36,750
2025	280,000	25,156
2026	295,000	12,906
	<u>\$ 4,035,000</u>	<u>\$ 1,999,606</u>

## WEST DES MOINES WATER WORKS

### SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2006

Series 1998A Water Revenue Bonds: Series 1998A Water Revenue Bonds were issued under Resolutions adopted by the Board of Trustees.

The proceeds of the Bonds were used to finance certain capital improvements to the System (the "Project") and to pay costs of issuing the Series 1998A Bonds. The Project included: (i) upgrades to the Water Works' water treatment plant and water storage facilities and (ii) construction of a new pumping station. The Refunding Bonds were issued to refund all or a portion of the Water Works' outstanding Water Revenue Bonds Series 1995 (the "Refunded Bonds"). The original date of issue was May 1, 1998 (See Note 4).

<u>Maturing December 1</u>	<u>West Des Moines Water Works</u>	
	<u>Series 1998A Water Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 85,000	\$ 68,112
2008	90,000	64,118
2009	95,000	59,887
2010	95,000	55,376
2011	100,000	50,767
2012	110,000	45,767
2013	115,000	40,268
2014	120,000	34,402
2015	125,000	28,223
2016	130,000	21,723
2017	140,000	14,962
2018	145,000	7,612
	<u>\$ 1,350,000</u>	<u>\$ 491,217</u>

## WEST DES MOINES WATER WORKS

### SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2006

Series 1998B Water Revenue Bonds: Series 1998B Water Revenue Bonds were issued under Resolutions adopted by the Board of Trustees.

The proceeds of the Bonds were used to finance certain capital improvements to the System (the "Project") and to pay costs of issuing the Series 1998B Bonds. The Project included: (i) upgrades to the Water Works' water treatment plant and water storage facilities and (ii) construction of a new pumping station. The Refunding Bonds were issued to refund all or a portion of the Water Works' outstanding Water Revenue Bonds Series 1995 (the "Refunded Bonds"). The original date of issue was May 1, 1998 (See Note 4).

<u>Maturing December 1</u>	<u>West Des Moines Water Works</u>	
	<u>Series 1998B Water Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 600,000	\$ 282,448
2008	630,000	254,247
2009	660,000	224,638
2010	695,000	193,287
2011	730,000	159,580
2012	765,000	123,080
2013	805,000	84,830
2014	850,000	43,775
	<u>\$ 5,735,000</u>	<u>\$ 1,365,885</u>

## WEST DES MOINES WATER WORKS

### SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2006

Series 2004 Water Revenue Refunding Bonds: Series 2004 Water Revenue Refunding Bonds were issued under Resolutions adopted by the Board of Trustees.

The Refunding Bonds were issued to refund all or a portion of the Water Works' outstanding Water Revenue Bonds Series 1997 (the "Refunded Bonds"). The original date of issue was April 1, 2004.

The proceeds of the original Bonds were used to finance certain capital improvements to the System (the "Project") and to pay costs of issuing the Bonds. The Project included: (i) the construction and/or purchase of water supply and distribution facilities and the land for such facilities, (ii) the construction of additional water treatment capacity, (iii) the construction facilities for handling water treatment plant residues, (iv) improvements to the electrical distribution system of the water treatment plant, (v) improvements to the electronic control system of the Water Works and (vi) construction of new and replacement water mains (See Note 4).

The following is a summary of the debt obligations of the West Des Moines Water Works:

<u>Maturing December 1</u>	<u>West Des Moines Water Works</u>	
	<u>Series 2004 Water Revenue Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 50,000	\$ 189,288
2008	55,000	188,162
2009	555,000	186,788
2010	610,000	170,137
2011	605,000	150,008
2012	645,000	128,832
2013	640,000	105,290
2014	690,000	81,930
2015	735,000	56,400
2016	730,000	28,470
	<u>\$ 5,315,000</u>	<u>\$ 1,285,305</u>

STATISTICAL SECTION (UNAUDITED)

# WEST DES MOINES WATER WORKS

## SCHEDULE OF WATER USAGE BY MONTH

Year ended December 31, 2006

(UNAUDITED)

<u>Month</u>	<u>Accounts with Water Service</u>	<u>Dollar Amount of Water Billings</u>	<u>Gallons of Water Billed</u>	<u>Gallons of Water Pumped</u>
January	19,714	\$ 429,831	133,245,320	167,137,000
February	19,678	388,831	105,548,070	151,706,000
March	19,845	485,644	149,229,862	162,118,000
April	19,762	412,811	128,236,000	173,771,000
May	19,928	490,768	152,220,695	240,500,000
June	20,204	1,145,412	357,264,182	388,535,000
July	20,176	949,463	293,970,700	359,225,000
August	20,279	947,150	293,760,085	278,609,000
September	20,278	575,856	178,127,771	213,493,000
October	20,223	541,655	165,021,974	217,505,000
November	20,289	505,620	159,136,160	164,042,000
December	<u>20,328</u>	<u>394,361</u>	<u>121,804,940</u>	<u>161,617,000</u>
	<u>240,704</u>	\$ 7,267,402	2,237,565,759	2,678,258,000
ADD:				
Metered water for City (\$0.00)		-	14,733,000	-
Other non-billed water		<u>-</u>	<u>27,781,824</u>	<u>-</u>
Totals		<u>\$ 7,267,402</u>	<u>2,280,080,583</u>	<u>2,678,258,000</u>



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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees  
West Des Moines Water Works

We have audited the financial statements of West Des Moines Water Works as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated April 25, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of West Des Moines Water Works as of and for the years ended December 31, 2006 and 2005, in accordance with auditing standards generally accepted in the United States of America, we considered West Des Moines Water Works' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Works' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance

As part of obtaining reasonable assurance about whether West Des Moines Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the West Des Moines Water Works' operations for the year ended December 31, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Water Works. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those matters.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the West Des Moines Water Works and other parties to whom the West Des Moines Water Works may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the West Des Moines Water Works during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Martens & Company, CPA, LLP*

West Des Moines, Iowa  
April 25, 2007



## WEST DES MOINES WATER WORKS

### SCHEDULE OF FINDINGS

Year ended December 31, 2006

#### PART I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS:

- (1) An unqualified opinion was issued on the financial statements.
- (2) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (3) The audit did not disclose any non-compliance which is material to the financial statements.

#### PART II: OTHER FINDINGS RELATED TO STATUTORY REPORTING:

- (1) Certified Budget As Amended - Disbursements during the year ended December 31, 2006, did not exceed the amount budgeted.
- (2) Questionable Expenditures - We noted no expenditures that we believe did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expenses - No disbursements of West Des Moines Water Works' money for travel expenses of spouses of West Des Moines Water Works' officials or employees were noted.
- (4) Business Transactions - No business transactions between the West Des Moines Water Works and West Des Moines Water Works' officials or employees were noted.
- (5) Bond Coverage - Surety Bond coverage of West Des Moines Water Works' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure coverage is adequate for current operations.
- (6) Board of Trustees Minutes - No transactions were found that we believe should have been approved in the trustee minutes but were not.
- (7) Revenue Bonds - The Water Works has established the sinking and reserve accounts as required by the water revenue bond resolutions.
- (8) Deposits and Investments - The West Des Moines Water Works has adopted a written investment policy as required by Chapter 128.10B of the Code of Iowa.